

TO: Joyce M. Grossnickle, Administrative Officer

FROM: Commissioner Blaine R. Young

DATE: May 10, 2010

Subject: Proposed Pawn Shop Text Amendment	
Presenter (Name & Title): Commissioner Blaine R. Young	
Requested Date: Thursday, 5/13/10	Phone: Ext. 12336

Type of Briefing: (Click box to select)



Administrative Business



Worksession



Closed Session



BOCC/BOE Mtg.



County/Municipal Mtg.



Public Hearing

Board Action Desired:



Decision



Guidance



Information



PowerPoint Presentation

Staff Coordination: This topic has been thoroughly coordinated with the following Division/Department Directors, and they will have representatives at the presentation: (click to place a check mark in the appropriate box).

	Staff	Initials	Date	Comments
	County Attorney			
	County Manager			
	Finance Director			
	Budget Officer			
	Fire & Rescue Services Dir.			
	Management Services Director			

	Staff	Initials	Date	Comments
	Permitting & Development Review Director			
	Planning Director			
	Public Works Director			
	Utilities and Solid Waste Management Director			
	Elected Officials			
	Independent Agencies			
	Other			

Attachments:



Yes



No

PLEASE NOTE: The **original and 10 copies** of all attachments (including the coordination sheet) are required for the Board of County Commissioners' meetings, which includes the Joint BOCC/BOE Meeting and the County/Municipal Meeting.

If you are scheduled for a **Closed Session**, then you only need to submit the **original and nine (9) copies** of the back-up material. Back-up materials are due to the Administrative Officer **ONE WEEK IN ADVANCE** of the meeting. If materials are not received in a timely manner, you will be asked to reschedule your item.

Date

Signature

Date

Signature

Date

Signature

Date

Signature

Date

Signature



Blaine R. Young
County Commissioner
Frederick County, Maryland

TO: Board of County Commissioners

FROM: Commissioner Blaine R. Young

DATE: May 10, 2010

ISSUE: Would the Board of County Commissioners consider directing staff to amend the Zoning Ordinance to allow pawn shops in appropriately zoned areas of Frederick County?

BACKGROUND

At this time pawn shops are not allowed within any zoning district in Frederick County.

A request was received to allow a pawn shop at 5809A Buckeystown Pike. The property is currently zoned General Commercial and a Pawn Shop is not an allowable principle use in that zoning district.

Photos of the proposed location are attached.

RECOMMENDATION

I request that the BOCC discuss allowing Pawn Shops as a permitted use within the appropriate zoning districts in Frederick County.

pc: Eric Soter, Planning Division
Larry Smith, Planning Division

Peter McDonald
Lisa McDonald
Frederick Jewelry & Loan
7800 Lythan Place
Ijamsville, MD 21754

May 6, 2010

Sent via electronic mail: dsmith2@frederickcountymd.gov

Board of County Commissioners
12 East Church Street
Frederick, MD 21701

RE: Frederick Jewelry & Loan

Dear Gentlemen:

We would like to request that the county allow pawn shops as a described business in the county at:
5809A Buckeystown Pike
Frederick, MD

March 29, 2010, Mr. McDonald applied for a special exception with the Zoning Administrator, Mr. Larry Smith, for a mixed use retail/financial services, commonly called a pawn shop at the above address. The zoning exception was denied.

Pawn shops historically have had negative reputations. However, modern pawn shops represent a strong industry that appeals to a diverse customer base and provide financial resources. As an industry there are three national chains that are publicly traded: CashAmerica, EZPawn and First Cash Financial Services (FCFS). These companies have a market cap of \$3.5 billion combined. FCFS operates two of the three pawn shops in Frederick city.

These two shops as well as the third individual owned pawn shop in Frederick City, Cole's Pawn, Market Street, are located in similar business districts as the requested business. There are diverse and family-oriented businesses near each like a Dance Studio, Rita's Italian Ice, A Bird Shop, and Popeye's Restaurant. In Hagerstown, the FCFS store is next to Ledo's Restaurant, a Party Store and Baskin Robins. Similarly, in Germantown, FCFS is located along 355 near a McDonalds and Small Equipment Rental. As a neighbor business, the customer base is very diverse, representing a large demographic.

In addition to having a diverse customer pool, pawn shops offer customers opportunity to safely sell their merchandise of value. This is the same as many businesses that currently exist in the county, such as Reed's Jewelers in FSK mall. Here residents can sell their unwanted jewelry. This is similar to the out-of-town company that comes in weekly to purchase unwanted gold at the Hampton Inn. In the mall, there are several other examples of stores that buy and sell used merchandise: Duet with Music Store buys and sells instruments and GameStop buys and sell used game systems and accessories. Further north on Buckeystown Pike, Burton's baseball Cards and Coins has operated for many years, buying and selling cards and coins of value.

The county does not have businesses that provide collateral loans, aka pawns. Thus, the residents must sell their merchandise of value with no option to reclaim if they desire. The current lending environment has become very stringent for large loans like homes, home improvements and cars. Small loans at banks do not exist. Consumers are often in need of small cash loans for unexpected bills or spending money for vacation. Collateral loans are affordable and efficient for these purposes.

Interest rates for collateral loans vary. One common example of collateral loans is overdraft protection, often the direct deposits of the pay check being the collateral. Fees for overdraft, regardless of the amount over, begin at \$35. Comparatively, if a customer borrows \$50 for seven months with the proposed business at 10 percent, the customer would pay \$35 fee. This is equivalent as one over draft.

Peter & Lisa McDonald
May 6, 2010
Page 2

Additionally if a customer borrows \$70 for 10 months, the fee would be equal to the insufficient funds the customer would incur.

With the expectation that bank fees will continue to rise, the US Congress and Senate this past fall introduced legislature to limit the amount of fees that banks can charge consumers. However, recently it has been estimated that nearly 25 percent of the US -population does not have bank accounts thus showing the need for alternative financing. Pawn shops offer this alternative in collateral loans, starting at \$10. The stores in Frederick City charge approximately 20 percent for 30 days. However with competition, as in Hagerstown between FCFS and Washington St. Pawn, the interest rate is about 15 percent. In Montgomery County, there are several pawn shops and companies. The interest rate in Germantown is as low as 12 percent. Competition drives the interest rates down.

Finally, pawn shops have been associated with criminal activity for years. It should be pointed out that the pawn industry has worked diligently to remove this stigma by working closely with law enforcement. The state of Maryland requires all pawn shops to report all transactions and hold merchandise for 18 days. The state requires the use of Business Watch International software which instantaneously reports all transactions at pawn shops to law enforcement. This relationship was most evident in the recent report in the Montgomery County Gazette where pawn shops were instrumental in retrieving the stolen merchandise. "Montgomery County Assistant State's Attorney Stephen Chaikin said he has relied on information from pawn shops to prosecute suspects in 25 cases in the last year."

Peter and Lisa McDonald own their residence in Frederick County and have resided in the county since 1993. Mr. McDonald previously managed FCFS for over 15 years where his last position was President of North America Operations. This past year, we opened Frederick Estate Jewelers in Frederick City where Mr. McDonald is licensed to buy and sell precious metals as well as other items of value such as watches, crystal and pens. Mrs. McDonald is employed with a research institute, J. Craig Venter Institute, in Rockville for almost 18 years where she coordinates their science education programs. The owners and staff will obtain all necessary licenses from the State of Maryland, including a full FBI criminal background check.

In conclusion, in these struggling economic times, small-business development is key to the success of the US Economy. The business proposed estimates that it will employ up to six staff with in the first two-years representing a salary base of over \$200,000 per year. The business expects to earn profits which will add to the tax revenue locally in Frederick County. Furthermore, the rent on the establishment will also add to the tax revenue through the local property owner.

Thank you for your consideration. If you have further questions or require more information, we can be contacted via electronic mail or phone.

Sincerely,

Peter McDonald
ibrox@earthlink.net
240-446-1401

Lisa McDonald
mcdonald@jcv.org
240-447-4234

Peter McDonald
Frederick Jewelry & Loan
7800 Lythan Place
Ijamsville, MD 21754

March 29, 2010

Mr. Larry Smith
Zoning Administrator
12 East Church Street
Frederick, MD 21701

RE: Frederick Jewelry & Loan

Dear Mr. Smith:

I would like to request zoning for a mixed use retail/financial services, commonly called a pawn shop, at the following address:

5809A Buckeystown Pike
Frederick, MD

The store will be clean and well lit which will be an inviting place for Frederick County residents to come to buy, obtain loans and/or sell no longer needed items in accordance with local, state and federal laws. The pawnshop will be primarily a second hand jewelry and musical equipment store. In addition, the establishment will not deal in firearms of any kind, ammunition, or adult based entertainment.

The owner previously ran these types of retail/financial services with a national chain for over 15 years. The owner and staff will obtain all necessary licenses from the State of Maryland, including a full FBI criminal background check.

Thank you for your consideration.

Sincerely,



Peter McDonald



**DIVISION OF PLANNING
FREDERICK COUNTY, MARYLAND**

Office of the Zoning Administrator

Winchester Hall • 12 East Church Street • Frederick, Maryland 21701

301-600-1138 • FAX 301-600-2327 • TTY: Use Maryland Relay

www.FrederickCountyMD.gov/planning

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**COUNTY MANAGER'S
OFFICE**

Ronald A. Hart
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**ZONING
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Larry W. Smith
Zoning Administrator



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Pillars of Character are service
marks of the CHARACTER
COUNTS! Coalition, a project of the
Josephson Institute of Ethics.
www.charactercounts.org

April 19, 2010

Peter McDonald
7800 Lythan Place
Jamsville, MD 21754

Re: 5809A Buckeystown Pike
Tax Map 77, Grid 16, Parcel 150
Tax ID #28-538510

To Whom It May Concern,

This office has received your letter dated March 29th, 2010 requesting "zoning for a mixed use retail/financial services, commonly called a pawn shop" at the above referenced property (Property). Your letter proposes a "place for Frederick County residents to come to buy, obtain loans and/or sell no longer needed items in accordance with local, state and federal laws. The pawnshop will be primarily a second hand jewelry and music equipment store."

The Property is currently zoned General Commercial (GC) under the Frederick County Zoning Ordinance (Ordinance).

Ordinance Section 1-19-5.310 *USE TABLE* does not list Pawn Shop as an allowable principle use in the General Commercial (GC) zoning district, nor is there a use listed that can be found similar to a Pawn Shop,

Based on the information you have provided in your zoning verification request letter and the above regulations outlined in the Ordinance, your proposed use of a Pawn Shop would not be allowable at this time.

If you have any further questions, please contact me at 301-600-1491.

Sincerely,

Larry W. Smith

Larry W. Smith
Zoning Administrator

cc: File

ec: Mark Depo
Michael Chomel
Gary Hessong
Justin Horman

Smith, Debbie

From: McDonald, Lisa [lmcdonald@jevi.org]
Sent: Friday, May 07, 2010 11:49 AM
To: Smith, Debbie
Cc: Peter
Subject: Board of County Commisioners
Attachments: Board of Co Com 050610.pdf

Good Morning,

Please find attached a letter of request to the Board of County Commissioners. Below are the links to the articles we refer to in the letter in the event you wish to print them.

link to how pawn shops help solve crime

http://www.gazette.net/stories/03032010/germnew190949_32578.php

link to latest quarterly report for First Cash. Shows huge increase in pawn shop use thus need for additional stores.

<http://biz.yahoo.com/e/100505/fefs10-q.html>

link to First Cash earnings release showing 25 percent of population in United States do not have bank accounts thus showing need for alternative financing.

<http://www.reuters.com/article/idCNSGE63K0G020100421?rpc=44>

link showing huge fees paid to banks for overdrafts by customers. expected to keep rising.

<http://www.bloomberg.com/apps/news?pid=20601103&sid=agc9AVZp41SE>

Please let me know if you need additional information.

Thank you,
Lisa

Lisa A. McDonald, MBA
Education Director
J. Craig Venter Institute
Phone 301.795.7394 | Fax 301.795.7055
Phone 858.200.1884 | Fax 858.200.1835
Mobile 240.447.4234
www.jevi.org

Wednesday, March 3, 2010

Technology, pawn shops help police

County law enforcement uses 'hits' from stores to make arrests

by Andre L. Taylor | Staff Writer

Pawn shops, with their quick payouts and underpriced secondhand items, are attractive to thieves looking to get rid of stolen items.

They are also a key component in solving robbery and burglary cases. Montgomery County Assistant State's Attorney Stephen Chaikin said he has relied on information from pawn shops to prosecute suspects in 25 cases in the last year.

"It's almost like a starting place" to find suspects, since they have to use picture identification when pawning items, Chaikin said. "That's the clue that we need. If that person isn't the stealer, they may know who is."

Most pawn shops use computer technology to record and report all transactions. Dallas-based LeadsOnline sells subscriptions to their Web site nationally to law enforcement agencies to track down stolen items.

Famous Pawn in Germantown reports all daily transactions to LeadsOnline and works closely with Montgomery County police, said Rick Wessel, chief executive officer of Dallas-based First Cash Financial Services, which owns the pawn shop. An iPod sold to the pawn shop in January led to the arrest of a Germantown man wanted for two thefts.

Information from pawn shops is being used in five current cases Chaikin is prosecuting, he said.

Chaikin credits information from a pawn shop in Frederick for helping to prosecute Jayson Mosley, 24, of Germantown. Mosley and four other men went to Frederick to pawn a stolen laptop, but when police showed up, Mosley ran and police arrested the four men with him. The four men said Mosley stole the laptop and he was arrested in Rockville days later. Mosley now faces 27 years in prison for several burglaries. Mosley was convicted in January of felony theft scheme and will be sentenced March 11.

Statewide, customers must provide to pawn shops their photo identifications and detailed personal information, Chaikin said. "It's a great investigative tool," Chaikin said of this law enforced by the state's Department of Labor Licenses and Regulations. "It lets the police see if there are hot items at any time in a pawn shop."

More advanced ways to track a stolen item at a pawn shop yield speedier results.

Within a couple minutes of typing a description or serial number of a stolen item anywhere in the country, a police officer can find the location of that item if it is in a pawn shop, said Dave Finley, chief executive officer of LeadsOnline. Police agencies can get a 30-day free subscription to the tracking site. Prices start at \$1,000 a year and go up depending on the size of the police department, Finley said.

"It's worth the price because of the quick turnaround of tracking stolen items and returning them to their owners," Finley said. "There are a number of pawn shops in Maryland that use our service."

Famous Pawn reports all transactions to the site. Wessel said his company cooperates with law enforcement agencies in every state they have businesses. Keeping record of driver's licenses and merchandise serial numbers is how his company helps police capture criminals.

"A criminal is much better off taking stolen goods to a flea market rather than bringing anything into a pawn shop,"

Wessel said. "If the item is stolen, we have a map right back to the person who stole it."

Capt. Thomas Didone, commander of the 5th District station in Germantown, said the relationship between the police and pawn shops is essential to closing cases. Didone could not supply statistics, but said county police have made more larceny arrests from "hits" on stolen goods sitting in pawn shops in the last two years.

"When we recover stuff, they lose money," Didone said. "But that hasn't stopped them from helping us close our cases."

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5-May-2010

Quarterly Report**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****GENERAL**

Pawn operations generated 86% of the Company's revenue from continuing operations during the first three months of 2010. The Company's pawn revenue is derived primarily from service fees on pawn loans and merchandise sales of forfeited pawn collateral and used goods purchased directly from the general public. The Company accrues pawn service charge revenue on a constant-yield basis over the life of the pawn loan for all pawns that the Company deems collection to be probable based on historical pawn redemption statistics. If a pawn loan is not repaid prior to the expiration of the automatic extension period, if applicable, the property is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued interest.

The Company's short-term consumer loan revenue, which is approximately 14% of year-to-date revenue from continuing operations, is derived primarily from fees on short-term loans and credit services fees. The Company recognizes service fee income on short-term loans on a constant-yield basis over the life of the short-term loan, which is generally thirty-one days or less. The net defaults on short-term loans and changes in the short-term loan valuation reserve are charged to the short-term loan credit loss provision. The credit loss provision is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management's expectations of future credit losses. See additional discussion of the credit loss provision, and related allowances/accruals, in the section titled "Results of Continuing Operations."

The Company offers a fee-based credit services organization program ("CSO program") to assist customers, primarily in Texas markets, in obtaining credit. Under the CSO program, the Company assists customers in applying for a short-term loan from an independent, non-bank, consumer lending company (the "Independent Lender") and issues the Independent Lender a letter of credit to guarantee the repayment of the loan. The Company recognizes credit services fees ratably over the life of the loan made by the Independent Lender. The loans made by the Independent Lender to credit services customers of the Company have terms of 7 to 180 days. The Company records a liability for the estimated fair value of the liability under the letters of credit. The credit loss provision is based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management's expectations of future credit losses. See additional discussion of the credit loss provision, and related allowances/accruals, in the section titled "Results of Continuing Operations."

OPERATIONS AND LOCATIONS

As of March 31, 2010, the Company had 559 locations in eight U.S. states and 19 states in Mexico, which represents a net store-count increase of 12% over the past twelve months. A total of 14 new store locations were added during the first quarter of 2010. The following table details store counts for the three months ended March 31, 2010:

	U.S. Locations	Mexico Locations	Total Locations
Three Months Ended March 31, 2010			
Total locations, beginning of period	217	329	546
New locations opened	-	14	14
Locations closed or consolidated	(1)	-	(1)

Total locations, end of period	216	343	559
--------------------------------	-----	-----	-----

U.S. locations include 97 pawn stores and 119 short-term loan stores. The Company closed one under-performing U.S. short-term loan store in the first quarter of 2010. Mexico locations are comprised of 297 large format pawn stores and 46 smaller format CashYa! pawn/short-term loan stores. At March 31, 2010, the Company's credit services operations also include an internet distribution channel for customers in the states of Maryland and Texas.

For the three months ended March 31, 2010, the Company's 50% owned joint venture, Cash & Go, Ltd., operated a total of 39 kiosks located inside convenience stores in the state of Texas, which are not included in the above table.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related revenue and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates and assumptions are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company's estimates. Both the significant accounting policies that management believes are the most critical to aid in fully understanding and evaluating the reported financial results and the effects of recent accounting pronouncements have been reported in the Company's 2009 Annual Report on Form 10-K.

The functional currency for the Company's Mexican subsidiaries is the Mexican peso. The assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at each balance sheet date, and the resulting adjustments are accumulated in other comprehensive income (loss) as a separate component of stockholders' equity. Revenue and expenses are translated at the monthly average exchange rates occurring during each year.

The Company's management reviews and analyzes certain operating results, in Mexico, on a constant currency basis because the Company believes this better represents the Company's underlying business trends. See additional discussion of constant currency operating results provided in the section titled "Non-GAAP Financial Information."

Stores included in the same-store revenue calculations are those stores that were opened prior to the beginning of the prior year comparative period and are still open. Also included are stores that were relocated during the year within a specified distance serving the same market, where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. Non-retail sales of scrap jewelry are included in same-store revenue calculations.

Operating expenses consist of all items directly related to the operation of the Company's stores, including salaries and related payroll costs, rent, utilities, equipment, advertising, property taxes, licenses, supplies and security. Administrative expenses consist of items relating to the operation of the corporate office, including the compensation and benefit costs of corporate management, area supervisors and other operations management personnel, collections operations and personnel, accounting and administrative costs, information technology costs, liability and casualty insurance, outside legal and accounting fees and stockholder-related expenses.

Recent Accounting Pronouncements

See discussion in Note 1 of Notes to Condensed Consolidated Financial Statements.

RESULTS OF CONTINUING OPERATIONS

Three Months Ended March 31, 2010 Compared To The Three Months Ended March 31, 2009

The following table details the components of revenue for the three months ended March 31, 2010, as compared to the three months ended March 31, 2009 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. The Company's management reviews and analyzes business results in a constant currency because the Company believes this better represents the Company's underlying business trends.

	Three Months Ended March 31,		Increase/(Decrease)		Increase/(Decrease) Constant Currency Basis
	2010	2009			
Domestic revenue:					
Pawn retail merchandise sales	\$ 18,458	\$ 17,057	\$ 1,401	8 %	8 %
Pawn scrap jewelry sales	10,066	6,768	3,298	49 %	49 %
Pawn service fees	10,772	8,697	2,075	24 %	24 %
Short-term loan and credit services fees	12,202	11,985	217	2 %	2 %
Other	348	405	(57)	(14) %	(14) %
	51,846	44,912	6,934	15 %	15 %
Foreign revenue:					
Pawn retail merchandise sales	22,310	16,644	5,666	34 %	19 %
Pawn scrap jewelry sales	9,940	9,137	803	9 %	9 %

Pawn service fees	12,050	8,911	3,139	35 %	20 %
Short-term loan and credit services fees	1,060	811	249	31 %	16 %
Other	7	7	-	-	(11) %
	-----	-----	-----		
	45,367	35,510	9,857	28 %	17 %
	-----	-----	-----		
Total revenue:					
Pawn retail merchandise sales	40,768	33,701	7,067	21 %	14 %
Pawn scrap jewelry sales	20,006	15,905	4,101	26 %	26 %
Pawn service fees	22,822	17,608	5,214	30 %	22 %
Short-term loan and credit services fees	13,262	12,796	466	4 %	3 %
Other	355	412	(57)	(14) %	(14) %
	-----	-----	-----		
	\$ 97,213	\$ 80,422	\$ 16,791	21 %	16 %

The following table details pawn receivables, short-term loan receivables, and active CSO loans outstanding from an independent third-party lender as of March 31, 2010, as compared to March 31, 2009 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year balances at the prior year end-of-period exchange rate.

	Balance at March 31,		Increase		Increase Constant Currency Basis
	2010	2009	Increase		
	-----	-----	-----	-----	-----
Domestic customer receivables and CSO loans outstanding:					
Pawn receivables	\$ 26,161	\$ 22,903	\$ 3,258	14 %	14 %
Short-term loan receivables, net of allowance	1,529	1,448	81	6 %	6 %
CSO short-term loans held by independent third-party (1)	9,994	9,661	333	3 %	3 %
	-----	-----	-----		
	37,684	34,012	3,672	11 %	11 %
	-----	-----	-----		
Foreign customer receivables:					
Pawn receivables	29,739	20,376	9,363	46 %	25 %
Short-term loan receivables, net of allowance	924	697	227	33 %	13 %
	-----	-----	-----		
	30,663	21,073	9,590	46 %	24 %
	-----	-----	-----		
Total customer receivables and CSO loans outstanding:					
Pawn receivables	55,900	43,279	12,621	29 %	19 %
Short-term loan receivables, net of allowance	2,453	2,145	308	14 %	8 %
CSO short-term loans held by independent third-party (1)	9,994	9,661	333	3 %	3 %
	-----	-----	-----		
	\$ 68,347	\$ 55,085	\$ 13,262	24 %	16 %

(1) CSO short-term loans outstanding are comprised of the principal portion of active CSO loans outstanding from an independent third-party lender, which are not included on the Company's balance sheet, net of the Company's estimated fair value of its liability under the letters of credit guaranteeing the loans.

Store Operations

The overall increase in year-over-year revenue was due primarily to a combination of significant same-store pawn revenue growth and the opening of new pawn stores. Same-store revenue in the pawn stores (stores that were in operation during all of the first quarter of both 2009 and 2010) increased by 14% for the first quarter of 2010. The revenue growth from Mexico is reflective of continued maturation of stores in Mexico, where the Company has concentrated the majority of its store openings over the past several years. Revenue growth in the United States was primarily the result of strong demand for pawn loans and increased revenue from scrap jewelry sales. Revenue generated by the new stores opened since January 1, 2009 increased by \$5,984,000, compared to the same quarter last year.

Combined pawn retail and scrap jewelry sales increased by 23% for the quarter, with Mexico stores recording 25% growth, and U.S. stores 20% growth. The 26% increase in pawn scrap jewelry sales during the first quarter of 2010 was primarily due to a 20% increase in the weighted-average selling price of scrap

gold and a 3% increase in the quantity of scrap jewelry sold. The total volume of gold scrap jewelry sold in the first quarter of 2010 was 17,205 ounces at an average cost of \$783 per ounce and an average selling price of \$1,106 per ounce.

Revenue from pawn service fees were up 30%, which was composed of a 24% increase in the U.S. markets and a 35% increase in Mexico markets. The increase in revenues was reflective of growth in pawn receivables of 14% in the United States, which has a mostly mature store base, and 46% in Mexico, where almost half of the stores are less than three years old. The increases in pawn service fees and receivables were the result of strong consumer credit demand in most markets, new stores, store maturation and the strengthening of the peso in Mexico, which more than offset slight demand weakness in certain U.S./Mexico border markets. Service fees from short-term loans and credit services increased 4% compared to the first quarter of 2009, which was consistent with the increase in outstanding short-term loans and CSO transaction volumes.

The gross profit margin on pawn merchandise sales was 38% during the first quarter of 2010, compared to 42% during the first quarter of 2009. The retail pawn merchandise margin, which excludes scrap jewelry sales, was 41% during the first quarter of 2010, compared to 43% in the first quarter of 2009. Gross margin on sales of scrap jewelry was 33% during the first quarter of 2010, compared to 41% in the first quarter of 2009. The decrease in retail margins was reflective of a competitive consumer retailing environment and higher costs associated with jewelry acquisition, while the change in the scrap margin was reflective of higher costs associated with jewelry acquisition. Pawn inventories increased over the prior year by 21%, which was reflective of growth in pawn receivable balances, especially in Mexico. At March 31, 2010, the Company's pawn inventories were comprised of 47% gold jewelry, 34% electronics, 8% tools and 11% other.

The Company's short-term loan and credit services loss provision was 16% of short-term loan and credit services fee revenue during the first quarter of 2010, compared to 17% in the first quarter of 2009. The Company's loss reserve on short-term loan receivables increased to \$146,000, or 5.6% of the gross receivable balance at March 31, 2010, compared to \$98,000, or 4.4% of the gross receivable balance at March 31, 2009. The estimated fair value of liabilities under the CSO letters of credit, net of anticipated recoveries from customers, was \$690,000, or 6.5% of the gross receivable balance at March 31, 2010, compared to \$560,000, or 5.5% of the gross receivable balance at March 31, 2009.

Pawn and short-term loan store operating expenses of \$27,749,000 during the first quarter of 2010 increased by 14% compared to \$24,361,000 during the first quarter of 2009, primarily as a result of new store openings, and the appreciation of the Mexican peso since January 1, 2009. Operating expenses increased approximately 9% on a constant currency basis.

The net store profit contribution from the pawn and short-term loan operations for the current-year quarter was \$27,668,000, which equates to a store-level operating margin of 28%, compared to 29% in 2009.

The average value of the Mexican peso to the U.S. dollar increased from 14.4 to 1 in the first quarter of 2009 to 12.8 to 1 in the first quarter of 2010. As a result, the translated revenue results of the Mexican operations into U.S. dollars were increased by this currency rate fluctuation. However, while the strengthening of the Mexican peso positively affected the translated dollar-value of revenue, expenses were inflated as well. As a result of this and other natural currency hedges maintained by the Company, the impact of the currency rate fluctuation on first quarter net income and earnings per share was minimal.

Administrative Expenses, Interest, Taxes & Income

Administrative expenses increased 19% to \$9,603,000 during the first quarter of 2010 compared to \$8,086,000 during the first quarter of 2009, which reflected a 16% increase in the weighted-average store count and increased general management and supervisory compensation expense related to increased store count, revenue and profitability.

Interest expense decreased to \$140,000 in the first quarter of 2010, compared to \$236,000 for the first quarter of 2009, reflecting lower borrowing levels.

For the first quarter of 2010 and 2009, the Company's effective federal income tax rates of 37.0% and 36.8%, respectively, differed from the federal statutory tax rate of approximately 35%, primarily as a result of state and foreign income taxes.

Income from continuing operations increased by 20% to \$11,044,000 during the first quarter of 2010 compared to \$9,207,000 during the first quarter of 2009. Including the results from the discontinued operations of Auto Master and the Michigan, West Coast and certain Texas short-term loan/credit services stores, net income was \$12,082,000 during the first quarter of 2010, compared to \$11,243,000 during the first quarter of 2009.

Discontinued Operations

After-tax net income from the discontinued Auto Master operation during the first quarter was \$1,150,000, or \$0.03 per share. As previously reported, the Company discontinued its Auto Master buy-here/pay-here automotive operation in the third quarter of 2008. Under a collection services agreement, a third party is collecting the Company's outstanding Auto Master customer notes receivable, which are being reported by the Company as a discontinued asset. The earnings per share of \$0.03 realized in the current quarter reflect the excess of the amounts collected in the current year over anticipated collections based on the assumed liquidation fair value methodology utilized in the Company's write-down of these same assets. During the current quarter, the Company realized net cash collections of \$2,025,000 on these accounts and recorded a pre-tax benefit of approximately \$968,000 from these cash collections as compared to the estimated fair value of the receivables carried on the Company's books. The Company believes cash collections of these Auto Master receivables will decline during the remainder of 2010, as the outstanding receivable balances are fully collected and/or written-off. In addition, the Company recorded a gain of approximately \$293,000, related to the 2010 first quarter sale of certain commercial real estate associated with the discontinued Auto Master operation. At March 31, 2010, the remaining Auto Master gross customer receivables, net of estimated collection costs, totaled approximately \$7,964,000, which the Company is carrying at an estimated fair value of \$1,581,000. Net collections in excess of this amount will be reflected in future quarters as additional income from discontinued operations.

In December 2009, the Company reached an agreement to sell all 22 of its West Coast stores and elected to discontinue its short-term loan operations in Michigan effective March 2009. In addition, certain Texas short-term loan/credit services stores were closed and classified as discontinued operations in both the first and second quarters of 2009. All revenue, expenses and income reported in these financial statements have been adjusted to reflect reclassification of these discontinued operations. During the first quarter of 2010, the Company incurred net expenses of \$111,000 related to these stores, which is included in discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2010, the Company's primary sources of liquidity were \$47,323,000 in cash and cash equivalents, \$66,912,000 in receivables, \$31,435,000 in inventories, \$1,581,000 in receivables of discontinued operations from Auto Master and \$90,000,000 of available and unused funds under the Company's long-




term line of credit with two commercial lenders (the "Credit Facility"). The Company had working capital of \$116,586,000 as of March 31, 2010, and total equity exceeded liabilities by a ratio of 5.2 to 1.

The Credit Facility matured on April 15, 2010. At March 31, 2010 and the subsequent maturity date of April 15, 2010, the Company had no outstanding balance under the Credit Facility. The Company entered into a new, unsecured credit agreement with the same two commercial lenders on April 30, 2010 (the "Unsecured Credit Facility"). The Company's election to reduce the size of the new facility compared to the expired facility was based on factors including the lack of currently outstanding bank debt, a significantly increased cash position over the past year and the level of projected operating cash flows for fiscal 2010. Under the Unsecured Credit Facility which expires in April 2012, the Company has \$25,000,000 available and the amount can be increased to \$50,000,000, subject to lender approval. The Unsecured Credit Facility bears interest at the prevailing LIBOR rate (which was approximately 0.28% at April 30, 2010 and approximately 0.28% at May 3, 2010) plus a fixed interest rate margin of 2.0%. Under the terms of the Unsecured Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Company's Unsecured Credit Facility contains provisions that allow the Company to repurchase stock and/or pay cash dividends within certain parameters and is restricted from pledging any of its assets as collateral against other subordinated indebtedness. The Company was in compliance with the requirements and covenants of the Credit Facility as of May 3, 2010 and believes it has the capacity to borrow the full amount available under the Unsecured Credit Facility under the most restrictive covenant. The Company is required to pay an annual commitment fee of 1/4 of 1% on the average daily unused portion of the Unsecured Credit Facility commitment. The agreement supporting the Unsecured Credit Facility is filed hereto in Item 6, Exhibit 10.5.

At March 31, 2010, the Company had notes payable to individuals arising from the Presta Max acquisition which totaled \$7,156,000 in aggregate and bear interest at 5.5% per annum. The remaining balance is being paid in monthly payments of principal and interest scheduled through December 2012. Of the \$7,156,000 in notes payable, \$2,478,000 is classified as a current liability and \$4,678,000 is classified as long-term debt.

At March 31, 2010, the Company had notes payable to individuals arising from the Auto Master acquisition which totaled \$1,125,000 in aggregate and bear interest at 7% per annum, with quarterly payments of principal and interest scheduled through July 2010. All of the \$1,125,000 in notes payable is classified as a current liability.

The following table sets forth certain historical information with respect to the Company's sources and uses of cash:

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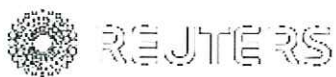
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UPDATE 2-First Cash profit beats Street on pawn loan growth

Wed, Apr 21 2010

* Q1 EPS continuing ops \$0.36 vs est \$0.35

* Pawn receivables up 29 pct

* Affirms 2009 EPS view of \$1.53-\$1.59 (Adds details, CFO comments, stock movement)

By Supantha Mukherjee

BANGALORE, April 21 (Reuters) - Pawn and payday lender First Cash Financial Services Inc <FCFS.O> posted a first-quarter profit that narrowly beat estimates as strong demand for pawn loans drove revenue.

"As we start the second quarter, we see continued growth in pawn receivable portfolios, improving sales and a significant pipeline of store openings over the balance of the year," Chief Executive Rick Wessel said in a statement.

Pawn receivables in the United States rose by 14 percent, while in Mexico it saw a 46 percent growth.

U.S. payday lenders are focusing more on pawn lending and are expanding their operations abroad, especially in Mexico, where there is a big demand for such services.

"Our primary customer is the under-banked or unbanked customer," Chief Financial Officer Douglas Orr told Reuters by phone.

"While in the United States, about 25 percent of the population fits in that category, probably 75 percent of the population is in that category in Mexico."

The company is cashing in on its first mover advantage into Mexico, from where it gets about half of its total revenue. It now plans to open 65 to 75 pawn stores in 2010, mainly in Mexico.

Loan volumes have seen a steady growth as rising gold prices have encouraged a lot of borrowers to pawn gold for more money, CFO Orr said.

First Cash said its jewelry scrap sales were up 26 percent due to a 20 percent increase in the average selling price of gold and a 3 percent rise in the jewelry scrap volume.

For the first quarter, the company earned \$12.1 million, or 39 cents a share, compared with \$11.2 million, or 38 cents a share, a year earlier. Earnings from continuing operations were 36 cents a share.

Revenue rose 21 percent to \$97.2 million.

Pawn receivables, from which the company earns service fees and future inventories for sale, rose 29 percent to \$56 million. Analysts were looking for a profit of 35 cents a share, excluding items, on revenue of \$93.0 million, according to Thomson Reuters I/B/E/S.

First Cash also backed its 2010 earnings forecast of between \$1.53 and \$1.59 a share.

Shares of the company were trading up 38 cents at \$23.90 Wednesday in afternoon trade on Nasdaq. (Reporting by Supantha Mukherjee in Bangalore; Editing by Anil D'Silva)

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Fed to Ban ATM, Debit Overdraft Fees Without Opt-In (Update3)

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By Jeff Plungis



Nov. 12 (Bloomberg) -- The Federal Reserve will prohibit banks from charging overdraft fees on automated teller machines or debit cards, unless a customer has agreed to pay extra charges for exceeding account balances.

Financial companies will have to explain overdraft programs and fees, as well as choices available to consumers, the Fed said today in a **statement** announcing a rule that takes effect next year. Lenders collected almost \$37 billion in overdraft fees last year, according to research firm Moebs Services Inc.

"The final overdraft rules represent an important step forward in consumer protection," Federal Reserve Chairman **Ben S. Bernanke** said in the statement. "Both new and existing account holders will be able to make informed decisions about whether to sign up for an overdraft service."

House Financial Services Committee Chairman Barney Frank and Senate Banking Committee Chairman **Christopher Dodd** have separately introduced legislation that would restrict banks' ability to charge overdraft fees. Both bills would permit one overdraft fee a month or six in a year.

Giving consumers a choice is important, "but we need to do far more to protect customers from abusive bank products," Dodd said today in a statement. "We still need to stop the excessive fees, repeated charges, lax notifications and processing manipulation" in overdraft-protection programs.

Dodd introduced legislation Nov. 10 to strip the Fed of authority for regulating banks and give Congress a greater voice in naming the central bank officials who set interest rates. Dodd's plan would create a Consumer Financial Protection Agency, which would assume the Fed's role on consumer issues.

'Consistency, Clarity'

The Fed's overdraft rule will "bring consistency and clarity" for banks, said **Edward Yingling**, president of the Washington-based American Bankers Association. "We will work hard to balance enhanced consumer protections while retaining the benefits of processing important payment such as utilities, rent and mortgage payments."

The final Fed rules will require banks to provide the same terms, including prices, for consumers who decline overdraft protection. The rules take effect July 1. Consumers who decline to join a program may be denied access to cash at an ATM or have their debit-card transactions rejected, the Fed said.

Fed consumer research shows "most consumers prefer not to be enrolled in overdraft services for ATM and one-time debit- card transactions unless they affirmatively consent," the board said in its statement.

Checks Excluded

The rules won't apply to printed checks or regularly recurring debits from checking accounts, a Federal Reserve official said in a background briefing conference call today. Those transactions will be handled differently because people want those payments, which might include rent or utilities, to go through without delay, the Fed official said.

For online transactions, those using a debit-card number would be covered under the rules, the Fed officials said. Payments using a checking account number wouldn't be covered, the officials said.

The rules may fail to produce the desired result of avoiding costs for customers, because consumer protection steps often have unintended consequences, said Bob Meara, senior analyst with Celent, a Boston-based financial research and consulting firm.

"The majority of account holders who don't overdraft their accounts will be paying monthly service fees rather than the free checking enjoyed for the last decade," Meara said.

Banks, credit unions and savings-and-loans must comply with the rules. They will have to design disclosure statements to make the programs easier to understand, the officials said. Fed research showed that many consumers weren't aware their accounts automatically enrolled them in overdraft programs, subjecting them to fees, they said.

Fees related to overdrawn U.S. accounts may rise to \$38.5 billion this year from \$36.7 billion in 2008, according to Moebs Services in Lake Bluff, Illinois.

To contact the reporter on this story: Jeff Plungis in Washington at jplungis@bloomberg.net.

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